

Office of the
Legislative Fiscal Analyst

FY 2005 Budget Recommendations

Joint Appropriations Subcommittee for
Capital Facilities and Administrative Services

Utah Department of Administrative Services
**Division of Facilities Construction and Management
Administration**

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1.0 Summary: Division of Facilities Construction and Management - Administration

The Division of Facilities Construction and Management (DFCM) is the building manager for all State owned facilities. The division is responsible for all aspects of building construction for new state buildings and assists the Building Board in identifying the most critical alteration, renovation, repair, and improvement projects on existing buildings.

As the State Building Manager, the Director of DFCM oversees the following activities:

- construction of state buildings;
- space utilization studies;
- establishment of statewide space standards;
- agency and institution master planning;
- staff support for the State Building Board;
- lease administration.

	Analyst FY 2005 Base	Analyst FY 2005 Changes	Analyst FY 2005 Total
Financing			
General Fund	81,300		81,300
Dedicated Credits Revenue	1,202,300		1,202,300
Restricted Revenue	2,666,400		2,666,400
Lapsing Balance	(95,100)		(95,100)
Total	\$3,854,900	\$0	\$3,854,900
Programs			
DFCM Administration	3,058,300		3,058,300
Preventive Maintenance	144,300		144,300
Governor's Residence	81,300		81,300
DFCM HazMat	94,000		94,000
Roofing and Paving	477,000		477,000
Total	\$3,854,900	\$0	\$3,854,900
FTE/Other			
Total FTE	42		42

2.0 Issues

2.1 Consolidation of Line Items

DFCM's dual role as construction administrator and facility manager creates a diverse role for the agency that traditionally received funding from multiple line items. As facility manager¹ for Capitol Hill and the Governor's Mansion, DFCM received funds in a separate line item (DFCM – Facility Management) to simplify tracking of expenditures for operation and maintenance. With the creation of the Capitol Preservation Board in 1998 and the transfer of repair funds for the Mansion, the DFCM Facility Management line item was reduced from approximately \$3 million in General Fund to \$77,800. Preventative Maintenance is the only other program in that line and it is funded through dedicated credits. For the FY 2004 budget the Legislature combined programs within DFCM into one line item. This action created a better system of tracking and helped the organization focus on core services.

2.2 Preventative Maintenance

DFCM operates a preventative maintenance program that helps state agencies conserve energy and improve maintenance efforts. The primary program focus is building auditing. These audits provide feedback to agencies regarding the quality of maintenance programs and offer recommendations on how to improve efficiency. A summary of audit findings is included with the program recommendation.

2.3 Funding Shift for DFCM

With revenue shortfalls plaguing the state, creative solutions for funding state government were required for FY 2003 and 2004. One solution involved funding DFCM's \$3 million operating budget from the projects it manages. The Analyst recommendation continues the use of contingency reserve and project reserve funds for the administrative portion of DFCM.

2.4 Value Based Procurement System

Intent language passed in the 2003 General Session required the Analyst to provide a report on the effect of DFCM's Value Based Procurement System. This intent language also led to a working group of DFCM staff, legislators, vendors and the Division of Purchasing to propose improvements to the system. Section 3.1 includes a summary of findings and recommendations.

¹ This is done under a contract with the Capitol Preservation Board.

3.0 Programs: Division of Facilities Construction and Management –Administration

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
Dedicated Credits Revenue		487,000	487,000	
Restricted Revenue	3,086,600	2,666,400	2,666,400	
Lapsing Balance	(223,400)	(95,100)	(95,100)	
Total	\$2,863,200	\$3,058,300	\$3,058,300	\$0
Expenditures				
Personal Services	2,456,200	2,571,100	2,571,100	
In-State Travel	47,700	54,600	54,600	
Out of State Travel	6,300	8,900	8,900	
Current Expense	149,100	167,900	167,900	
DP Current Expense	197,600	255,800	255,800	
DP Capital Outlay	6,300			
Total	\$2,863,200	\$3,058,300	\$3,058,300	\$0
FTE/Other				
Total FTE	35	34	34	0
*Non-state funds as estimated by agency				

3.1 DFCM Administration

With revenue shortfalls plaguing the state, creative solutions for funding state government were required for FY 2003. One solution involved funding DFCM's \$3 million operating budget from the projects it manages. The shift allowed the Legislature to move \$2.8 million in General Fund to other pressing needs in state government without impacting DFCM's ability to properly meet its mission.

Funding for DFCM came from the Project Reserve Fund and the Contingency Reserve Fund – two funds that only have money in them if projects are managed properly. In reality, the ability of the Legislature to use these funds is something of a testament to DFCM's ability to bring projects in within budget. DFCM will have enough money in the Contingency Reserve and the Project Reserve funds to finance FY 2005 operations. If no additional development projects are added this year, the Legislature will have to make provisions for funding from other sources in FY 2006. At that time the legislature will still have a variety of options, including a transfer from Capital Improvements, a surcharge on leases, a direct appropriation or an add-on to development projects approved in the 2005 General Session.

DFCM Manages Hundreds of Projects

DFCM's responsibility for construction oversight includes all non-state funded projects, state funded developments, and capital improvements. Oversight extends beyond construction – payment for projects is cleared through the DFCM accounting team and payments to contractors are authorized from the construction account.

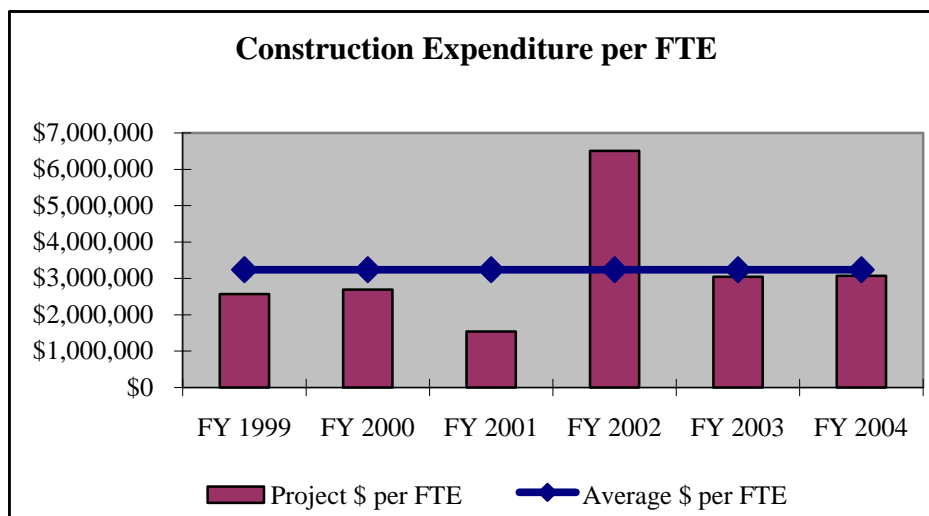
DFCM Funding Shift

During the 2002 General Session the Legislature shifted funding sources for DFCM from General Fund to Project Reserve Fund and Contingency Fund. These two new funding sources are traditionally used to ensure projects are completed successfully and excess balances have been used to fund all or part of projects in past years. The fact that this money is available is a testament to DFCM's management over the last two or three years. Balances accrue in these funds only when projects come in under budget or when bids are lower than expected.

Current balances within the two funds should be sufficient to cover FY 2004 without jeopardizing projects. The Project Reserve Fund Balance is nearly \$3.6 million and the Contingency Reserve Fund totals just over \$6.1 million. Discussions with DFCM indicate that the following amounts could be used to fund FY 2004 administration:

Project Reserve	\$2,050,000
Contingency Reserve	521,300
Dedicated Credits (Capital Improvements)	487,000
Total	\$3,058,300

The use of "non-state" funds allows the Legislature more flexibility by freeing up \$2.8 million in ongoing General Fund in both the current and upcoming budget year.



Source: OLFA Meribah Database and DFCM Five Year Book 2003 and 2004

Although FY 2005 can be covered through reserve funds and dedicated credits, the Legislature should be aware that this may not turn into an ongoing source of funds. In order to accurately fund DFCM, three factors must be considered: bidding climate, workload and non-construction operations.

*Value Based
Procurement Study*

During the 2003 Interim the Legislative Fiscal Analyst presented a report² on issues related to the Value Based Procurement system (VBS). The report found that through the VBS program the state is “receiving better projects at a fair price.”³ As a follow up to the report, DFCM began a series of meetings to find ways to improve the system. The study group included DFCM staff, architects, representatives of construction companies, members of the Building Board and the state Director of Purchasing.

After a series of meetings stretched over approximately five months, the study group offered the following conceptual framework:

1. The standard procurement process under the Design/Bid/Build project delivery method should not be VBS. The standard process should be low bid or the multi-step bidding process with VBS being an allowable alternative when justified. It should be noted that DFCM generally uses the Construction Manager/General Contractor delivery method for larger projects so this recommendation will rarely affect large project. This will, however, result in a substantial reduction in the use of VBS for smaller projects from the level that was typical a year ago.
2. The procurement documents need to more clearly state the expectations and issues related to a specific project.
3. The RFP document should provide guidance on the format of information to be submitted and place a limitation on the number of pages allowed.
4. Before issuing the RFP, DFCM and the user agency/institution should determine the relative importance of the selection criteria and this weighting should be reflected in the RFP.
5. The selection committees need to be better prepared for the selection. This will be facilitated by the page limit and standard structure of submittals.
6. The selection process will be made using a numerical scoring of each selection criteria.⁴

The entire text of the memo can be found following the 4.0 table in this report.

² Walthers, Kevin (2003). *Value Based Procurement at DFCM*. Salt Lake City, Utah: Office of the Legislative Fiscal Analyst.

³ *Ibid*, p. 3.

⁴ Stepan, Keith (December 3, 2003). Memo to State Building Board: *Recommendations from VBS Procurement Review Committees*

*Project
Management*

Over the last three years the Legislature funded a significant number of projects that DFCM must manage. This provided an increase in reserve funds that now can be used for operations. The table below is a snapshot of DFCM's current workload.

DIVISION OF FACILITIES CONSTRUCTION & MANAGEMENT			
Project Management Sheet FY 2004			
Agency/Institution	Amount	Projects	Average Project
Alcoholic Beverage Control	\$ 3,849,920	19	\$ 202,627
Agriculture	367,833	4	91,958
Corrections	11,869,854	26	456,533
Courts	20,260,629	10	2,026,063
DCED	30,000	1	30,000
DFCM Projects	14,866,494	39	381,192
DEQ	385,131	2	192,566
Parks & Rec	25,432,387	21	1,211,066
DNR Wildlife	3,136,492	7	448,070
DNR Other	768,606	7	109,801
Bridgerland	575,000	2	287,500
Davis ATC	185,316	2	92,658
Ogden / Weber ATC	1,490,602	4	372,651
Uintah Basin ATC	85,001	1	85,001
Education Other	213,747	2	106,874
Health	828,634	12	69,053
State Hospital	15,995,887	6	2,665,981
Developmental Center	2,253,814	6	375,636
Youth Corrections	7,529,668	7	1,075,667
Human Services Other	307,263	3	102,421
National Guard	4,146,020	59	70,272
Public Safety	176,987	5	35,397
Transportation	3,781,390	16	236,337
C E U	2,199,204	7	314,172
Dixie	20,551,678	13	1,580,898
SLCC	9,798,162	23	426,007
Snow College	4,964,912	13	381,916
Southern Utah University	17,707,967	18	983,776
University Of Utah	184,286,041	44	4,188,319
USU	69,329,384	51	1,359,400
UVSC	9,174,466	12	764,539
WSU	10,521,217	22	478,237
Workforce Services	2,311,915	18	128,440
Sub-total	\$ 449,381,621	482	\$ 932,327
Delegated Projects	(131,122,903)	(66)	
Other NonState Commitments	56,400,000	4	
Total	\$ 374,658,718	420	892,045

*Workload must
match funding level*

One of the concerns with moving from state funds to project funds involved the policy shift that funded operations out of reserve funds and future projects. If fewer development projects are funded over the next several years the Division worries that it may not have enough funds or workload to maintain staffing levels without a General Fund appropriation. The Analyst believes that staffing level should be independent of funding source – if workload drops to a point where there is not enough work for the entire staff then adjustments should be made regardless of funding source.

*Construction Funds
Leasing Program*

In addition to managing capital development and improvement projects, DFCM leases space for state agencies. It would be possible to fund the leasing program as an internal service fund by adding a surcharge to each lease, essentially funding the program from user agencies. This may create increased overhead and will likely encourage agencies to attempt to circumvent the central service in favor of obtaining their own leases. The leasing team represents less than twenty percent of the total administration budget, so the Analyst recommendation includes funding for the leasing program from current sources. The Analyst will continue to work with DFCM to monitor operations and determine if another funding mechanism may be more efficient in the future.

3.2 Preventative Maintenance

	2003	2004	2005	Est/Analyst
Financing	Actual	Estimated*	Analyst	Difference
Dedicated Credits Revenue	170,200	144,300	144,300	
Total	\$170,200	\$144,300	\$144,300	\$0
Expenditures				
Personal Services	141,900	117,500	117,500	
In-State Travel	3,100	2,900	2,900	
Out of State Travel	1,900	7,000	7,000	
Current Expense	20,300	12,200	12,200	
DP Current Expense	3,000	4,700	4,700	
Total	\$170,200	\$144,300	\$144,300	\$0
FTE/Other				
Total FTE	2	2	2	0
Vehicles	2	2	2	0

*Non-state funds as estimated by agency

Preventative maintenance includes those functions that prolong the life cycle of mechanical equipment, electrical systems, roofs, floors, and other safety systems. The Division has responsibility to ensure that all State owned facilities are on a preventative maintenance schedule. The program oversees Facility Condition Assessments and manages the Facility Audit program.

*Facility Condition
Assessments measure
physical building
needs*

Facility Condition Assessments (FCA) provide information on structural and architectural needs of state buildings. To date, contract engineers surveyed more than 25 million square feet of space and provided recommendations to the building board regarding future Capital Improvement needs. Approximately eighty-five percent of Capital Improvement funding is driven by the FCA program.

*Facility Audits
measure
maintenance
programs*

Facility Audits measure progress on routine maintenance issues. As originally designed, the program measured the process of maintaining a facility with little or no regard to physical condition. Once agencies learned how to better comply with maintenance standards DFCM began to add building condition to the scoring criteria. The logic is that the beginning point for any maintenance program is to set a standard. Once an agency achieves a sustainable level of performance they will begin to show the building to be in better shape.

3.3 Governor's Residence

	2003	2004	2005	Est/Analyst
Financing	Actual	Estimated*	Analyst	Difference
General Fund	81,300	81,300	81,300	
Total	\$81,300	\$81,300	\$81,300	\$0
Expenditures				
Current Expense	81,300	81,300	81,300	
Total	\$81,300	\$81,300	\$81,300	\$0
FTE/Other				
*Non-state funds as estimated by agency				

This program funds expenditures for security and costs associated with maintaining the Mansion as a ceremonial gathering place. Costs associated with maintaining the actual residence are funded through a separate budget.

3.4 Roofing and Paving

	2003	2004	2005	Est/Analyst
Financing	Actual	Estimated*	Analyst	Difference
Dedicated Credits Revenue	428,100	477,000	477,000	
Total	\$428,100	\$477,000	\$477,000	\$0
Expenditures				
Personal Services	328,400	323,000	323,000	
In-State Travel	5,300	12,700	12,700	
Out of State Travel	2,100	7,600	7,600	
Current Expense	84,700	120,700	120,700	
DP Current Expense	2,000	13,000	13,000	
Total	\$428,100	\$477,000	\$477,000	\$0
FTE/Other				
Total FTE	5	5	5	0

*Non-state funds as estimated by agency

The roofing and paving program began in FY 1998 as a means to improve the life cycle of state facilities. In addition to inspections, repairs, and maintenance, the program is responsible for identifying, specifying, and managing all roofing and paving projects.

This program was initiated to address the following issues:

- The state's roofs and parking lots were failing prematurely, resulting in early replacement;
- Inspections for new and replacement construction were not being conducted consistently or timely;
- The successful Utah Correctional Industries roofing repair program was underutilized and needed more projects.

In prior years management of this program came through the internal service fund program within DFCM even though funding came from Capital Improvements. DFCM's 2002 reorganization moved the Roofing and Paving program under the Capital Improvements director.

Costs dropping as projects increase

The last two years have seen the cost per project drop significantly. While the complexity of projects can impact price, the trend is significant enough to show that the new management program at DFCM provides significant value to the taxpayer.

Roofing and Paving History					
	1999	2000	2001	2002	2003
Roofing	125	170	188	272	394
Paving	177	206	224	190	180
Total Projects	302	376	412	462	574
Program Budget	\$8,610,789	\$7,952,000	\$6,908,000	\$7,240,900	\$7,725,800
\$ per Project	\$28,513	\$21,149	\$16,767	\$15,673	\$13,460
<i>Source: OLFA and DFCM</i>					

One factor that drives down the cost per project is the increasing number of projects. More projects can create economies of scale that lower costs through combined bidding. Another factor is the maintenance program that addresses minor issues early to prevent them from becoming major issues. When routine and emergency maintenance is performed in a timely fashion long term costs increases can be avoided.

3.5 Hazardous Materials Program

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
Dedicated Credits Revenue		94,000	94,000	
Total	\$0	\$94,000	\$94,000	\$0
Expenditures				
Personal Services		64,600	64,600	
In-State Travel		4,000	4,000	
Out of State Travel		1,700	1,700	
Current Expense		22,900	22,900	
DP Current Expense		800	800	
Total	\$0	\$94,000	\$94,000	\$0
FTE/Other				
Total FTE	0	1	1	0
<small>*Non-state funds as estimated by agency</small>				

HazMat Program new as appropriated program

DFCM manages the Hazardous Materials Program. This is not a new program, but rather one that was previously budgeted as part of the Internal Service Fund.

The Hazardous Materials program receives money from Capital Improvements and from the Asbestos Settlement Fund. Each year DFCM and the building board prioritize abatement needs in conjunction with agencies. Utah Correctional Industries provides a source of low cost labor, allowing the program to stretch resources.

4.0 Additional Information: Division of Facilities Construction and Management – Administration

	2001	2002	2003	2004	2005
Financing	Actual	Actual	Actual	Estimated*	Analyst
General Fund	3,198,100	2,806,700	81,300	81,300	81,300
Dedicated Credits Revenue	133,200	154,300	598,300	1,202,300	1,202,300
Dedicated Credits - Intragvt Rev	407,300	428,100			
Restricted Revenue			3,086,600	2,666,400	2,666,400
Transfers	200,000	100,000			
Project Reserve Fund		200,000			
Beginning Nonlapsing	700	700			
Closing Nonlapsing	(700)	(100)			
Lapsing Balance		(12,200)	(223,400)	(95,100)	(95,100)
Total	\$3,938,600	\$3,677,500	\$3,542,800	\$3,854,900	\$3,854,900
Programs					
DFCM Administration	3,089,800	2,986,900	2,863,200	3,058,300	3,058,300
Governor's Mansion	30,000	27,000			
Preventive Maintenance	133,200	154,300	170,200	144,300	144,300
DUP Museum	108,000				
Governor's Residence	81,300	81,300	81,300	81,300	81,300
Green House	30,000				
Council Hall	59,000				
DFCM HazMat				94,000	94,000
Roofing and Paving	407,300	428,000	428,100	477,000	477,000
Total	\$3,938,600	\$3,677,500	\$3,542,800	\$3,854,900	\$3,854,900
Expenditures					
Personal Services	3,167,100	2,990,300	2,926,500	3,076,200	3,076,200
In-State Travel	65,700	52,200	56,100	74,200	74,200
Out of State Travel	17,000	15,400	10,300	25,200	25,200
Current Expense	535,000	356,100	335,400	405,000	405,000
DP Current Expense	147,500	257,900	202,600	274,300	274,300
DP Capital Outlay			6,300		
Capital Outlay	6,300		5,600		
Other Charges/Pass Thru		5,600			
Total	\$3,938,600	\$3,677,500	\$3,542,800	\$3,854,900	\$3,854,900
FTE/Other					
Total FTE	47	43	42	42	42

*Non-state funds as estimated by agency.